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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 001744

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DEPT FOR EB, NEA/ARP; ENERGY FOR MWILLIAMSON

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SUBJECT: MAJOR POWER OUTAGES BARELY AVERTED IN 2007, MAY BE
INEVITABLE IN 2008

REF: KUWAIT 963

Classified By: Acting DCM Tim Lenderking for reasons 1.4 (b) and (d).

11. (C) Despite widespread predictions of major power outages (reftel), Kuwait made it through the summer without any significant blackouts or load shedding. In meetings with Minister of Electricity and Water Mohammed Al-Elaim on 31 October and MEW Director of Studies and Research Suhaila Al-Marafi on 3 December, CDA and econoff were told that luck was a major factor, with no major equipment breakdowns taking place despite the need to defer important maintenance. There were, however, some sporadic local power failures due to isolated faults. Both officials said that during peak afternoon consumption hours in August and September, the margin between electrical supply and demand virtually went down to zero.

Unprecedented conservation campaign

12. (C) An unprecedented and surprisingly successful conservation campaign brought consumption down by seven per cent over the previous summer. Most of these reductions were realized through more judicious use of air conditioning in government offices and mosques rather than conservation measures undertaken by residential users, according to Marafi.
New projects lagging; Outages coming next summer

13. (C) The Minister said plans for emergency supplemental power installation which began in the spring of 2007 will continue into 2008 but a combination of a tight market for generators and a sclerotic government contracting system have led to long delays and the procurement of poor quality and sometimes technically incompatible equipment. No new units are expected to come online before May 2008 at the earliest and the Ministry predicts six per cent annual growth in consumption. Managers of GE, Siemens, and Parsons Brinckerhoff, who are all working (or trying to work) in the Kuwaiti power sector say that major power outages during the summer of 2008 appear inevitable. Marafi shared their pessimism.

Plans to import and produce gas for power plants

14. (C) Kuwait continues to use fuel oil to run most of its power plants despite the environmental costs in terms of emissions and the opportunity costs in terms of lost fuel exports. According to the Minister, the GOK has decided that all its future power plants should be gas-powered, and intends to draw a large part of this gas supply from a 35-tcf (est.) non-associated gas field discovery announced in Kuwait

in early 2006, which is scheduled to start producing in early 2008. However, little progress has been made in building new gas production and transportation infrastructure thus far. In a 16 December meeting with econoff, Kuwait Petroleum Corporation (KPC) CEO Saad Al-Shuwaib said he is still seeking an international partner to provide technical expertise, since KPC has no experience in producing non-associated gas and the new field is reportedly very complex. In the interim, says Shuwaib, KPC is in talks with RasGas in Qatar to obtain LNG imports beginning in late 2008 or early 2009. An offshore regasification ship will be provided by the U.S.-based company Excelerate. KPC's intention is to import LNG for only two to three years until domestic gas production ramps up to a sufficient scale to support Kuwaiti power plants.

Electricity Ministry dysfunctional

15. (C) Marafi, who plans to leave MEW for the private sector in January due to her frustration with the GOK's inability to conduct long-term planning and execute major projects, complains that the GOK still fails to take power requirements into account as part of its national development planning. She also laments that major power plant projects continue to be delayed as powerful business families lobby the government and parliament as they compete for a piece of the pie in any major investment projects. Within the Ministry itself, Marafi says Kuwait is losing a growing number of expatriate engineers (who fill most of the key operational roles) to other GCC governments and to the private sector, both of which offer significantly higher salaries than MEW.

Comment

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16. (C) Major power outages next summer could potentially affect U.S. military forces hosted on Kuwaiti bases, air and sea port operations, American companies operating in Kuwait, and the Embassy. The GOK has said in the past that MEW would give the bases, the ports, and the embassy preferential treatment in any load shedding plans, but it would be prudent to review contingency plans and stock up on fuel for generators as the summer approaches.

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